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TAGS: PREL PGOV ECON EFIN ETRD LE

SUBJECT: LEBANON: HADDAD UPBEAT ON WTO ACCESSION,  
PRIVATIZATION

Classified By: Ambassador Jeffrey Feltman for reasons 1.4 (b) and (d).

SUMMARY

¶1. (C) Following his recent Washington trip, Economy Minister Haddad expressed regret that he had not seen more members of Congress, but he was optimistic about the aid promised at the Paris III donor conference. He understands USG wishes about debt reduction, and expects to discuss this again in a month. Haddad is concerned about any USG attempt to link its own funds to conditionality, and would prefer that we join with other donors in stipulating comprehensive conditions that have an international, not USG, character. He does not see any major barriers to WTO accession in 2007. The IMF's EPCA for Lebanon should be concluded soon, and that program is causing concern for the Central Bank governor. There are positive signs regarding both the reduction in cable piracy and the restructuring of the telecom sector, both due to creation of the new telecom regulatory agency. Running out of cash, the GOL is on the verge of bankruptcy, and the annual inflation rate is running at 6 percent. End summary.

MEETINGS IN WASHINGTON NOT ALL THEY COULD HAVE BEEN

¶2. (SBU) A cheerful, chipper Minister of Economy and Trade Sami Haddad reviewed his recent trip to Washington at a March 15 meeting with the Ambassador and Econoff. Haddad, who admitted to being "very excited" about recent government activities (possibly meaning the cabinet meeting of the previous day during which 101 items were agreed upon), ducked out of a Higher Privatization Council meeting to discuss his recent trip to Washington. He reported that the visit went "very well," and said that he had learned in Washington that, "all roads lead to you (Ambassador Feltman) and (USAID Director in Lebanon) Raouf Youssef." Haddad appeared to be disappointed that he was not able to see more people in Congress, but accepted the blame, saying that usually visitors use lobbyists to make their appointments. He did not and "we got what we got." He mentioned meeting with Senator Cochrane, and the staff of both Senator Byrd and the Senate Appropriations Committee.

USE OF U.S. FUNDS - STILL REQUIRES DISCUSSION

¶3. (SBU) Haddad shared with us his recent discussions in Washington about use of U.S. contributions. He understands that the USG generally does not favor cash transfers, and that we would prefer that any cash given by the USG would be

used to pay down debt. Repayment should begin with debt to the U.S. and then follow with repayment to institutions where the U.S. plays a major role, such as the World Bank. Haddad said that Lebanon's debt to the U.S. was insignificant at about \$50,000 (NFI) and should be repaid. He also said that he had checked with the World Bank, which does not wish to be repaid at this time. Therefore, his position is that Lebanon should repay the most expensive debt first. His understanding is that he will meet again with USG officials on this subject in one month to discuss it further. He did not specify where or with whom these meetings would take place, but we presume he was referring to the end of April IMF/IBRD meetings.

¶4. (SBU) As for the modalities of debt repayment, he understands that the USG would prefer to pay the creditors directly. However, if the GOL insists on paying its creditors directly, he believes that in the worst case the money would go through the Central Bank (BDL) directly to the creditors, rather than pass through temporarily as GOL revenues. Further discussions regarding the conditions that the USG might impose on any support centered around four points: the telecom sector; the power sector; the establishment of a Debt Management Office in the Ministry of Finance (MOF); and raising taxes. Of the four he sees the tax issue as the most controversial within the GOL, touching as it does on gasoline prices. Although the GOL would use improvements in fuel efficiency and other inducements to soften the blow of increased gasoline prices, planned by the Ministry of Finance for this year, this tax is a very unpopular idea and at this time the GOL is only willing to discuss it, rather than commit itself to higher taxes.

¶5. (C) Haddad feels that any overt action on the part of the

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USG to impose conditions on its financial support would automatically be viewed as a subversive form of control, and should be avoided. His suggestion was that all donors should jointly impose conditions, possibly led by the World Bank. He admitted that only the USG and the World Bank have been talking about conditions. The Arab donors have none. The IMF, through the Emergency Post-Conflict Assistance (EPCA) program, which is expected to be finalized this week, is talking about "monitorable actions" rather than conditionality. In Haddad's opinion, the USG should choose its conditions based on that agreement, masking USG conditionality for something more international in appearance.

WTO ACCESSION MOVING AHEAD

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¶6. (C) When the discussion turned to the next World Trade Organization (WTO) Working Party meeting, Haddad explained that it had originally been scheduled for the end of March, but had been postponed until the end of April. He went on to say, with some degree of embarrassment, that Prime Minister Siniora wanted Haddad to attend the Arab Summit, where the awkward possibility of duelling Lebanese delegations cannot yet be ruled out. Although his attendance was not yet confirmed, the Working Party meeting was postponed to accommodate his possible attendance in Riyadh. At another point in the conversation, Haddad, somewhat unsettled, pointed out that he did not know if he would be in this cabinet that long, nor did he wish to be in any new cabinet. It is unclear if he is aware of the rumors about his possible ouster, but there is no doubt that given the discussions about possible smaller cabinets, he must be reviewing his options.

¶7. (SBU) Discussing his meeting with the Office of the U.S. Trade Representative (USTR) during his Washington trip, Haddad felt that there was strong support for GOL accession to the WTO. He looked forward to getting the USG response to the GOL offers regarding goods, after he, per requirements, resubmitted the offers in a different format. That was done

immediately on his return from Washington, he said, expressing hope for a response shortly. He did request USG assistance with Australia, and possibly Japan, which are being "difficult" about tariffs. Saying that the U.S. is usually the last country to approve new entrants, he felt that U.S. engagement in the favor of Lebanon would be advantageous. When pressed, he said that in the area of services he also expected some difficulties from the European Union, the U.S. and Taiwan. But the GOL believes that it already matches U.S. regulations on at least 60 percent of the items, and the remaining differences are largely in the spirit of the Doha Round.

#### LEBANESE-MADE BARRIERS

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¶18. (SBU) Regarding GOL barriers to WTO accession, Haddad was upbeat at the news that the newly appointed head of the Telecom Regulatory Authority (TRA) might have discovered a legal fix in the area of cable piracy. This would potentially allow the GOL to begin to require licenses from all cable providers without additional legislation. Cable piracy is a large barrier, and the enforcement of licensing would be the responsibility of Haddad's ministry. Asked if the GOL has the political will to end piracy, Haddad said that he had to be realistic and therefore somewhat pessimistic. However, he believes that it is making some progress in this sensitive area. In meetings with his staff the previous day, there was general agreement about the potential of this new and favorable interpretation of existing legislation. It strengthens the belief in his ministry that WTO accession could happen in 2007.

¶19. (SBU) Haddad agreed that this timing is possible. He pointed out that pending legislation currently in Parliament can stay there despite changes in cabinets, unless the newly-responsible minister chooses to withdraw it. He cited the example of the e-commerce law which he has allowed to remain on the table for action, although it was initiated by his predecessor. All of the legislation believed to be required for WTO accession is with Parliament, either ready for passage, or in the final stages of discussion. Other legal steps remain, such as the cancelling of ministerial decrees, but those he feels are minor. Acknowledging that there would possibly be public outcry about some changes, such as the right-to-trade section of the labor law, he

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continues to feel optimistic. He told us what he repeated later the same day in an article for the local English-language newspaper, the Daily Star, about the April WTO meeting: "I hope this will be the last meeting before we become a member in the international trade organization."

#### VALUE OF THE EPCA

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¶10. (SBU) Regarding the IMF, Haddad said the Emergency Post Conflict Agreement (EPCA) would be signed by the end of the week. The EPCA will give Lebanon 25 percent of its IMF quota, "either \$75 million or \$100 million," which he views as "insignificant" in terms of absolute value, but what will be significant will be the IMF "medical report." He claimed that the Governor of the BDL, Riad Salameh, was not happy about the EPCA, and that he has sent a letter (Haddad may have meant to the Prime Minister) to that effect. Haddad suggested that although he did not know who wrote the letter, it seemed as if it was from someone who had something to hide. Haddad said the IMF has seen "unusual" things at the BDL, and will now begin to report on what it sees. While there is an agreement not to report on net foreign assets, the Fund will possibly report on "creative transactions." The problem, as Haddad sees it, is comparing the value of shaking up the body politic to the potential for undermining public confidence.

¶11. (C) Haddad revealed that, in terms of actual cash on hand, the GOL is on the verge of bankruptcy. He expressed his concern for Minister of Finance Jihad Azour who had to press the Minister of Telecom in the recent cabinet meeting to turn over revenues. He also said that Azour had to deal with sudden unexpected demands for funds to pay for oil for the electricity company, EDL. At the same time Azour is unable to get short-range forecasts so that he can budget for those expenses. Haddad and his staff pointed out that they are currently seeing inflation rates of about 6 percent, which is worrying.

WHERE IS PRIVATIZATION?

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¶12. (C) Haddad also expressed satisfaction with the functioning of the newly appointed Telecommunications Regulatory Authority (TRA). He sees the TRA as potentially a power center which will remove some clout from the Ministry of Post and Communications. He thinks that the TRA "looks viable." He said that the head of the IFC is coming on March 26, and might give Lebanon a mandate for up to five Post-Privatization Programs (PPP). He hinted that Telecoms Minister Marwan Hamadeh was initially not happy when he learned he was going to have a meeting with EB/CIP chief Ambassador David Gross in Washington. That meeting resulted from Haddad's earlier meeting, and according to Haddad, Hamadeh apparently feared it might raise issues that Hamadeh would rather not address. (We know from Hamadeh separately that, whether he had misgivings at first, he now welcomes fully the cooperation and assistance from Ambassador Gross and EB/CIP.) Regarding other potential targets for privatization, Haddad reported that there is no short-term fix for the power sector; the best option is to open the door to private production. If that happens, ten years into the future the current "mess" will still exist, but might then only represent 20 percent of the sector.

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